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EDITED TRANSCRIPT

OTC.TO - Q4 2015 Open Text Corp Earnings Call

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OVERVIEW:

OTC reported FY15 total revenues of \$1,851.9m and GAAP net income of \$234.3m or \$1.91 per diluted share. 4Q15 total revenues were \$482.7m and GAAP net income was \$68.8m or \$0.56 per diluted share.



CORPORATE PARTICIPANTS

Greg Secord *Open Text Corporation - VP of IR*

John Doolittle *Open Text Corporation - CFO*

Mark Barrenechea *Open Text Corporation - President & CEO*

CONFERENCE CALL PARTICIPANTS

Steven Li *Raymond James & Associates, Inc. - Analyst*

Philip Ling *Barclays Capital - Analyst*

Richard Tse *Cormark Securities - Analyst*

Kris Thompson *National Bank Financial - Analyst*

Paul Steep *Scotiabank - Analyst*

PRESENTATION

Operator

Welcome to the OpenText Corporation fourth-quarter and FY15 financial results conference call. As a reminder, all participants are in a listen-only mode, and the conference is being recorded.

(Operator Instructions)

At this time, I would like to turn the conference over to Greg Secord, Vice President, Investor Relations. Please go ahead.

Greg Secord - Open Text Corporation - VP of IR

Thank you, Brock, and good afternoon, everyone. I would like to welcome you to today's call, and with me is OpenText President and CEO, Mark J. Barrenechea, as well as our Chief Financial Officer, John Doolittle. As with our previous calls, we'll read prepared remarks followed by a question-and-answer session. The call will last approximately one hour, with a replay available shortly thereafter.

I would like to take a moment to direct our investors to the investor relation section of our website, where we posted two PowerPoints that will be referred to during today's call. First is our standard quarterly supplemental update on the financial results, and the second PowerPoint is a new strategic overview presentation, highlighting our leadership position in the EIM marketplace with supporting stat sales unequal with our historical performance and cloud transition initiatives. I encourage all of our investors to download both presentations.

As with previous quarters, we've updated the summary table highlighting OpenText's historical trends in financial metrics. Some of these metrics have been expanded to include additional detail in our cloud business under the tab Trended Financials. As a reminder, both PowerPoints, and our Trended Financials spreadsheets, are downloadable from the front page of IR section of our website. And with that, I'll proceed to the reading of our Safe Harbor Statement.



Please note that during the course of this conference call, we may make statements relating to the future performance of OpenText that contain forward-looking information. While these forward-looking statements represent our current judgment, actual results could differ materially from a conclusion, forecast, or projection in the forward-looking statements made today. Certain material factors and assumptions were applied in drawing any such conclusion, while making a forecast or projection as reflected in the forward-looking information.

Additional information about the material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information and the material factors or assumptions that were applied in drawing a conclusion, while making a forecast or projection as reflected in the forward-looking information, as well as the risk factors that may project the future performance results of OpenText, are contained in Open Text forms 10-K and 10-Q, as well as in our press release that was distributed earlier this afternoon, each of which may be found on our website.

We undertake no obligation to update these forward-looking statements unless required to do so by law. In addition, our conference call will include a discussion of certain non-GAAP financial measures. Reconciliations of all non-GAAP financial measures to their most directly comparable GAAP measures have been included in today's press release, which may be found on our website.

And with that, I'll hand the call over to John.

John Doolittle - Open Text Corporation - CFO

Okay, Greg, thank you very much. Welcome to the call everybody, thank you for joining. I'll start out with a comment, I'm very pleased with our bottom line and cash performance in the quarter and for the fiscal year. Adjusted operating income was up 14% year over year, 19% on a constant currency basis, and operating cash flow was \$523 million, up 25% year over year.

Turning to the financial results, I will discuss our fourth quarter, FY15, and then provide an update on our tax situation. Let me start with an overview of the impact of foreign exchange. In the fourth quarter, compared to the same period last year, our revenues were negatively impacted by \$45 million and adjusted operating income negatively impacted by \$17 million. By line item, the \$45 million negative impact is broken down as follows: license \$12 million, cloud \$9 million, customer support \$18 million, and PS \$6 million.

For the FY15, our revenues were negatively impacted by \$84 million compared to the last fiscal year, and adjusted operating income was negatively impacted by \$27.6 million. By line item, the \$84 million is broken down as follows: license \$20 million, cloud services and subscription \$18 million, CS \$34 million, and professional services \$12 million. This headwind continues into FY16, and I will return to this point later.

So let's turn to the quarter and the fiscal-year results. First on revenues, total revenue for the quarter was \$482.7 million, down 2% compared to \$494 million, but up 7% in constant currency. For the year, total revenue was \$1.8519 billion, up 14% compared to \$1.624 billion in FY14, or up 19% on a constant currency basis.

Recurring revenue was \$385.6 million for the quarter, down 2% compared to \$395.2 million, and up 6% in constant currency. For the year, recurring revenue was \$1.557 billion, up 18% compared to \$1.318 billion in FY14, and up 23% in constant currency.

License revenue for the quarter, \$97.1 million, down 2% compared to \$98.9 million, but up 10% in constant currency. For the year, license revenue was \$294.3 million, down 4% compared to \$305.8 million in FY14, but up 3% in constant currency. Cloud services and subscriptions for the quarter was \$149 million, down 2% compared to \$151.9 million, but up 4% in constant currency. For the year, cloud was \$605.3 million, up 62% compared to \$373.4 million in FY14, and up 67% in constant currency.



Customer support, \$184.2 million for the quarter, stable compared to \$183.9 million, but up 10% in constant currency. And for the year, customer support revenue was \$731.8 million, up 4% compared to \$707 million in FY14, and up 8% in constant currency.

Professional services and other revenue for the quarter was \$52.4 million, down 12% compared to \$59.4 million, or down 2% in constant currency. For the year, professional services and other revenue was \$220.5 million, down 8% compared to \$238.4 million in 2014, down 2% in constant currency.

Now gross margins and the bottom line. License margins remain constant at approximately 96%, both on a quarter and a fiscal-year basis. Cloud services margins decreased to approximately 60%, compared to 62% fourth quarter last year, but were up from 58% in Q3. Customer support margins remain relatively stable at approximately 87% on a quarter and for the fiscal year.

Professional services margins, 18% for the quarter, compared to 17% in the same period last year. For the year, professional services margin was 21%, compared to 20% in FY14. The fourth-quarter PS margin was impacted negatively by approximately 2 percentage points, as we reclassified approximately \$3.3 million out of PS into the cloud services line. So you should look to the full-year PS margin as more indicative of the run-rate.

Actuate's revenues were \$19.6 million this quarter, compared to \$14.5 million last quarter. Actuate's bottom line was \$3.5 million, versus the loss of \$100,000 last quarter. The purchase price adjustment on revenue was to \$2.5 million this quarter and \$2.9 million last quarter, respectively.

Adjusted operating income was \$148.6 million for the quarter, down 8%, compared to \$162.2 million. For the year, adjusted operating income was \$572.8 million, up 14% compared to \$502.7 million last year. Adjusted net income, \$106.9 million for the quarter, down 17% compared to \$128.7 million. For the year, adjusted net income was \$424.9 million, up 4% compared to \$406.8 million in FY14. And adjusted earnings per share at \$0.87 on a diluted basis, down 17% compared to \$1.05. For the year, adjusted earnings per share was \$3.46, up 3% compared to \$3.37 in FY14.

Tax, the adjusted tax rate for the quarter and for the fiscal year was 18%, an increase of some 4% from FY14. I expect our adjusted tax rate for FY16 to be 20%. This increase is a result of having proportionately more income in the US, and has nothing to do with the tax matters that I will provide commentary on in a minute.

On a GAAP basis, income from operations for the quarter was \$82.5 million, down 23% from \$107.7 million. And for the year, was \$348.7 million, up 16% from \$300.5 million in FY14.

Net income attributable, net income for the quarter was \$68.8 million, or \$0.56 per share on a diluted basis, compared to \$88.1 million, or \$0.72 per share on a diluted basis. For the year, net income was \$234.3 million, \$1.91 per share, compared to \$218.1 million, or \$1.81 per share -- sorry, \$1.91 this year, \$1.81 last year.

Now to balance sheet and cash flows, there were approximately 122.9 million shares outstanding on a fully diluted basis for the fourth quarter of FY15. Operating cash flow for the quarter was approximately \$131.8 million, a decrease of 2% compared to \$134.9 million last year. For the year, operating cash flow was \$523 million, an increase of 25% compared to \$417.1 million last year.

On the balance sheet, deferred revenues were \$386.3 million, compared to \$349.9 million, difference is attributable to the acquisitions of Actuate and IGC. Accounts Receivable, \$284.1 million, compared to \$292.9 million last year June 30. Our day sales were 53, same as they were in June of last year. July 28, the Board declared a cash dividend of \$0.20 per share for shareholders of record on August 28, payable on September 18, 2015.

Now, I would like to turn to our tax situation that we've outlined in the press release and give you some background. In relation to a previously disclosed tax examination, we recently received from the IRS a draft



proposed tax adjustment of \$280 million to our US federal taxes on our 2010 IP transfer. And, we're expecting another proposed tax adjustment of approximately \$80 million to our US federal taxes related to a subsequent IP transfer, plus, in each case, proposed penalties and interest. Now showing gross amount of these combined is approximately \$550 million.

We strongly disagree with the IRS's position and intend to vigorously contest the proposed adjustments. That said, these are large numbers and we take the proposed adjustments very seriously. We received expert tax advice in the form of an opinion from Deloitte in connection with the reorganization. We remain comfortable with our position, and a strong indication of this is that we have not booked any accruals for these matters in our financial statements.

While we expect this situation to take some time to play out, it is business as usual for us. Our liquidity position is very strong, and supports all of our various commitments, including these matters. Our cash position is currently at about \$750 million, end of the year at \$720 million. Unused committed revolver capacity is \$300 million, that's a five-year committed facility undrawn. Operating cash flow of \$500 million in FY15, and a gross leverage ratio of 2.6 at fiscal year end, well below our internal targets and the targets of the rating agencies.

The IRS proposed adjustments are one-time response to the IP transfers in 2010 and 2012, and do not affect subsequent tax years or our global operating structure. To reiterate, our effective tax rate outlook for FY16 will be approximately 20% on a non-GAAP basis.

So in summary on the year, I'm very pleased with our bottom line and cash performance in the quarter and for the year. Adjusted operating income up 14% year over year, 19% on a constant currency basis, and operating cash flow of \$523 million, up 25% year over year. With respect to the US tax matter, we remain very comfortable in our position, and we will vigorously defend ourselves.

Our seven-year revenue CAGR is 14%, lead by acquisitions and augmented by profitable organic growth. Our cost control, discipline and ability to integrate acquisitions efficiently is a strong foundation of our business, and enables us to grow margins as we on board these acquisitions.

In FY15, we had a negative FX impact of \$84 million on revenues, and FX headwinds continued in FY16, as evidenced by the change in the euro rates year over year. July 1, 2014, the euro was at EUR1.36 to the US dollar; July 1, 2015, it was EUR1.12.

We have increased our adjusted operating model to a range of 30% to 34% for FY16, and as Mark will discuss, we have a long-term aspirational goal for the Company of achieving 34% to 38% adjusted operating margins in FY20. So thank you very much. Mark, I will turn it over to you now.

Mark Barrenechea - Open Text Corporation - President & CEO

Thank you, John, and welcome, everyone, to our FY15 Q4 earnings call. It's great being back operating the business. Before I begin my remarks on the Company, our business strategy and financial results, let me add a few additional comments on tax and structure by starting with some history and perspective.

In 2010, we undertook a reorganization to centralize the management and ownership of our intellectual property. Why? With nearly 40 acquisitions completed by that point in time, decentralized management of that global portfolio was non-efficient. So we did the reorganization to, among other things, simplify the management of our IP ownership. After significant input from experts, including the opinion from Deloitte that John referenced, we effectuated the structure at Luxembourg. We are five years into that structure.



Centralized management is the correct way to manage a large, acquired IP portfolio. We continuously evaluate our structure, looking at the best ways to manage and optimize our business. You expect that of management, we are committed to delivering that. There are two sets of issues, here, that I want to highlight. One is backward looking, and one set is forward looking.

In looking backwards, we received a draft note, as John highlighted, from the IRS. Tax audits are a normal course for large businesses like OpenText, look no further than the Googles and Amazons of the world. We strongly disagree with the position taken by the IRS and intend to vigorously contest their proposed adjustments to our taxes. We remain comfortable with our position, and consistent with that view, we have not taken any reserves.

Now, let us look forward. As John noted, our FY16 non-GAAP tax-rate outlook is 20%. Beyond FY16, we do not see any issues that will prevent us from continuing to optimize the way we manage our IP, or from having an effective and appropriate tax rate. In summary, though we are addressing our backward-looking issue, expect a 2016 non-GAAP rate of 20%, and are confident in our approach to options beyond 2016.

Now, back to the business, our business strategy is working. Digital is changing business at unprecedented speeds, and companies have no choice but to adopt digitalization to survive. OpenText Enterprise Information Management brings together the core elements needed to drive that digital transformation.

First is data and information. This is the management of information flows, and driving engaging experiences by revolutionizing the way information is created, consumed and stored, as well as the complex processes that surround that. Second is information exchange. This is the ability to facilitate efficient, secure and compliant exchange of information inside and across organizations. Third is analytics, whereby companies can utilize enterprise data and big data to generate insights and actively improve their businesses.

With these core EIM elements, we are very well positioned to help customers holistically with their digital journey, both on- and off-premise, and by helping customers with both on-premise and off, we call this our hybrid strategy, and the intent is to take a customer-paced approach to innovations, including our cloud products. Also, our cloud strategy is targeted at new spend of existing and new customers, targeted at new workloads, and not targeted at cannibalization, or revenue substitutions.

Our business strategy is based on intelligent growth, enabled by OTIGS, the OpenText Intelligent Growth System. OTIGS is focused on five operating principles to deliver value: financial performance, customer-partner loyalty, talent development, product management and operational excellence.

Further, OTIGS enables us to acquire companies and quickly integrate and optimize them. We on-board companies to our operating model within one to two years, typically, extract significant cost, and optimize their financial returns. We have acquired over 50 companies under this model, investing \$3.8 billion in capital over 20 years. We have the pipeline in cash to continue with acquisitions this year, and we expect to invest, as previously stated, \$3 billion in the coming years.

In FY15, we delivered \$1.9 billion in total revenues, up 14% year over year, or 19% in constant currency, with recurring revenues of the year of \$1.6 billion, up 18%, or 23% in constant currency. Our adjusted operating margin was 31%, and we generated cash flows of \$0.5 billion. Our business strategy is working.

Let us talk about the cloud. In three fiscal years we have delivered a cloud business generating over \$600 million in revenues, gross margins of low 60%, and highly profitable. We were not born fast, but we are reborn in cloud.

Looking beyond the financials, and equally important, we have also built wide and deep cloud expertise within the Company and have emerged as leaders in all things cloud for the enterprise. We always have more to learn, and we will, but we have reached a tipping point level of competency in the cloud, which makes us experts.



Cloud is a new growth area for the Company, and in May, we announced a restructuring of the Company to better enable the digital transformation.

We look to remove layers from the organization, go more direct to the customer, create a technical services organization responsible for customer lifetime value and accelerated time to revenue, align the sales organization to be laser-focused on their key-buying domains, and continue the expansion of margin and cash flows. As I said in May, I have strong confidence this alignment would yield immediate, positive results, and it did. The restructuring is now behind us and bright-line working.

In constant currency we delivered in Q4 \$527 million of revenues, 31.4% of adjusted operating margin, and adjusted EPS of \$0.98. Our sales organization is focused, producing, and highly motivated as we enter FY16. They are very excited about the ability to capture new spend and multiple years of spend in a single up-front transaction, via managed services, or simply a subscription.

In FY15, our cloud revenues were \$605 million, or \$623 million in constant currency, derived from three main sources. First, managed services, which is managed applications and hosting services. This is where we bring together, in a holistic service for customers, the ability to outsource the EIM processes to OpenText.

Second, second source of revenue is our business network for the trading grid and messaging. This is our value-added network for EDI, On-Demand Messaging, and other enterprise message types. Our vision is to deliver any message in any format anywhere in the world, fast, reliably and secure.

And the third main source is applications as a service, delivered both SaaS and as a subscription. These include our active applications for order management, electronic invoicing, treasury management, and Core, our new SaaS ECM solution. In total, we have approximately 65,000 customers running in our cloud.

Further, as we have said in the past, we operate our own global cloud infrastructure. This is a strategic differentiator on security, customer data sovereignty, agility, network reliability, and all the benefits of built-for-purpose. We operate over 50 data center locations around the world, comprising of core data centers, all the way through satellite pops, for secure and reliable message delivery.

We just finished our third full year of running a cloud business, and I am pleased with our progress. In constant currency from \$0 million to \$623 million of revenues, adjusted gross margin in the low-60%^s, bright-line profitable, a globally owned and secure platform, 65,000 customers, massive learning of all things cloud inside the organization, new products and services as we enter FY16, the analytics opportunity, which I will talk to you in a few moments, and many other things.

With all these positives, there have been questions around our cloud transition and the effects on our overall business model. In listening over the last couple of quarters, I've heard three areas of concern. First, is will margins erode? Two, the transition/substitution model, and third, provide us with more data in FY16 around the cloud. Let us unpack these one by one with yet another year of experience under our belts.

So let's start on margins. Over the last three years, cloud services again have grown from 0% to 33% of our revenues, while license have remained relatively consistent on an absolute basis, but decreasing as an overall percent of the business. Over the same period we have expanded adjusted operating margins from 27% to 31%, or 400 basis points.

Now, let us look forward, as we enter FY16, we are raising our annual target model, or adjusted operating margin, to 30% to 34%, and presenting a 20/20 margin aspiration of 34% to 38%, and we are raising our cloud services revenue percentages to 31% to 36%. Said simply, we continue to expect operating margin to expand regardless of where our customers deploy our technology.



The concern that operating margin would erode, while we on-board cloud services revenues, is not founded in three years of fact. Three years of facts and results are, to me, the best indicator to answer any question about margin and long-term efficiency potential of our business.

On transition and substitution models, again, we have another year of experience, and this is really important, we have analyzed this closely. In fact, we've got others to do so as well, including the consultant firm, McKinsey. Our strategy for existing customers is not to substitute a dollar of license for a dollar of subscription, that is not our strategy. Rather, our strategy is to capture new spend from existing or new customers with long-term contracts.

Managed services addresses new needs and new spend. We package together license, maintenance, professional services and hosting fees into one price and one offering, delivering significantly more value than just the license. Our business network is about delivering any message anywhere in the world, and to continue to grow subscribers and add new vertical or application-centric services.

This quarter, and I'm pleased to discuss this, we'll be delivering new on-demand capabilities for the healthcare industry in North America. Our staff applications are addressing new workloads not available before, such as electronic invoicing, order management, and treasury management. We will look at a sampling of enterprise cloud customers over the last six months, the majority consist of new bookings. This is very encouraging and exactly what we want, our hybrid strategy is working.

We are coming off of good Q4, delivering \$97 million of license revenues, or \$109 million in constant currency. Further, we expect on-demand to remain an important part of our business. Over the last three years, license has been relatively consistent in absolute dollars, but gradually declining as a total percent of our revenues, given we have on-boarded new cloud revenues.

The third thing we've heard is on more data. Here are the key external data points that will help keep track of our cloud progress in FY16. First is MCV, minimal contract value. MCV represents the minimum new contract value of a cloud arrangement.

In Q4, our total MCV bookings were \$62 million. In FY14, we booked \$116 million of MCV; in FY15, we booked \$211 million; and in FY16, we are targeting between \$280 million and \$320 million of MCV. This is between 30% and 50% MCV growth year over year.

Next metric, total cloud customers, we enter FY16 with 65,000 customers. Managed services customers, we start FY16 with 819 live customers in managed services, up from 731 last year. Annual recurring revenue target is 82% to 86% for FY16, up from 80% to 84% in the previous year, with actuals of 84%.

Cloud renewal rates, another key metric, are in the mid-90%, license renewals are in the low-90%, both are strong performers. Cloud deals over \$1 million, in Q4, we closed 11 deals in the cloud over \$1 million; in FY15, we closed 31.

Our business and financial strategy are working. We enter FY16 with strong interest from our customers, new cloud metrics, confidence from a strong Q4, and a motivated sales organization to capture new spend and new opportunity.

As relates to Q4 and full fiscal-year highlights, John has walked you through that, on our strong performance, but I'd like to add a few -- couple highlights here. First and foremost, we look at our business on an annual basis. This is why we provide annual target ranges. None of us were pleased with Q3 performance. However, we delivered a solid Q4, and it is an example of what we are capable of with focus and execution. Further, on an annual basis, we delivered to our internal plan on revenue and over achieved on adjusted operating margin.

Let me spend some time on customers. Global brands are selecting and trusting the OpenText cloud. I'd like to walk through a few of these wins. Within the enterprise group, we delivered wins at (inaudible) in Switzerland



for information management, Daimler Finance for leasing and contract management, the Australian DoD for SAP shared-point information management, Metrolinx for context and discovery management, and T-Mobile for customer communication management.

We also won Haynes and TBA for new cloud services, each incremental revenue opportunities to OpenText. Within our IX group, we won new business for managed service at the known USAA, Intel, (inaudible) for supply chain management, some of the world's largest and most respected organizations trusting the OpenText cloud for their B2B needs.

Within our analytics group, we delivered key wins at [Kronis], North Star Steel, and Dell. As for the business network band, we won new business at Eaton Corporation, BSN Sports, Checkpoint Systems and the BBC. For active applications, we won new business at Denon, Volkswagen, Barclays, Marks & Spencer, and Jaguar. I also want to highlight that our Americas business in FY15 exceeded \$1 billion in revenues for the first time in our history.

Let me transition to capital allocation and M&A. Our seven-year growth CAGR, our revenue growth CAGR is 14%, so we have lead with acquisitions and augmented our revenues with profitable organic growth. We look at ourselves to be efficient capital allocators with both financial and human capital.

First, we have put a quarterly dividend program in place, that since its inception, has paid out for nine quarters, with a total cash distribution of \$180 million. We look to allocate 20% of our trailing 12-month operating cash flows to our dividend program and assess our dividend rate on an annual basis. If you extrapolate that out over the next three years, we could distribute a few hundred million dollars in additional dividends

Second, let me provide an update on our venture investments. We have committed \$100 million in venture investments across a variety of funds: Canada's VCAP Program, CR Capital in Silicon Valley, and our new venture fund, which we call the OpenText Enterprise Application Fund, or OTEAF for short.

The OpenText fund is now fully funded and up and running. The OpenText \$100 million venture commitment is now part of \$1.5 billion of committed capital in the above fund. We look forward to selecting the best companies from these funds to resell their products, or consider as acquisition candidates.

Our venture strategy is to find new revenues, acquisition incubation, and a return on capital. Third, we are value buyers, where we do the valuation analysis on our own company and suggest a strong potential return. To that end, we announced, today, a buyback program of up to \$200 million.

As for M&A, our approach to value-based assets has not changed. We are going to double the size of our corporate development team this year, and we have the pipeline and available cash to continue with acquisitions this year. And, we expect to close multiple and meaningful acquisitions within the fiscal year.

As it relates to human capital, we enter FY16 with approximately 25% of our workforce in India and the Philippines. This provides us a foundation to globally source labor, drive around-the-clock processes and innovation, and provide efficient services to our customers and ourselves.

Next, let me move on to FY16 and speak about five key operating pillars for the year. Pillar one, expanding our EIM market leadership. We will focus on new customer wins, install base management through new programs, competitive replacement, industry awareness, and delivering Blue Carbon in the second half of FY16.

Blue Carbon is on track for delivery this fiscal year. It is our most significant release in the history of the Company. Blue Carbon will include new applications for information-centric users; complete and integrated information flows from capture to disposition, create to consume, purchase to pay, issue to resolution; as well as, embedded analytics and predictive analysis, a new user experience.



Pillar two, expanding focus on cloud services, both on-premise and off. We have four revenue streams, cloud services and subscription, professional services, license, and maintenance. They're all important to us. As I described above, cloud is about new customers and new revenues. Cloud is a long-term growth opportunity, and clearly a key pillar for FY16 and beyond.

Pillar three for us is analytics. For 20 years we have been building information platforms, and for the last 3 years delivering business networks. Now, we can offer the analytics and predictive tools necessary for EIM. This is a new and exciting area for the Company.

While we will continue to deliver stand-alone analytics and predictive analysis, like for Dell, as an example, lever the embedded opportunity, like Kronis, Actuate is now integrated into content suite so we can drive install-based sales with analytics. For the next 90 days, Actuate will be hosted within the OpenText cloud, and we will present our customers with the new analytics as a service.

In the second half of FY16, analytics will be integrated into our managed cloud services, or supply-chain analytics. As a reminder, Actuate turned profitable last quarter. It will be an important year for us in analytics. That's our third pillar.

Our fourth pillar, strengthening our go-to-market. In cloud, we are focused on removing layers, getting closer to the customer, presenting them with experts in each of our key domains, capturing lifetime value, having partners who add incremental value, and delivering the world's only complete and integrated EIM cloud service. Our sales and leadership changes are complete and working.

In FY16, we'll continue to strengthen our demand generation, relentlessly focused on quality of service delivery and customer satisfaction; augmenting our direct sales force with value-added partners; and embracing a stronger emphasis on expanding strategic partnerships that add value. Today, I'm pleased to announce a new dimension to our SAP relationship.

We intend to provide a commercial bridge between our business networks, so SAP and Areva customers can leverage the value of the OpenText VAN and managed services. Our customer relationships are expanding now into the cloud, via today's announcement, including our support with HANA. It's an important step forward with our SAP relationship.

And the last pillar for FY16 is pillar five, and this is our financial performance. As we embrace OTIGS - the OTIGS model, we need to deliver to our top- and bottom-line goals, our growth programs for the year, our multi-horizon strategic objectives, grow via acquisitions and organically, and continue to act like owners, unlocking more value from within the business. I was not pleased with our Q3 performance, we recovered well in Q4. In FY16, we need to build on that confidence and momentum.

Let me wrap up my prepared remarks. We finish FY15 on strong performance, our restructuring behind us, the organization aligned and focused to deliver on digitalization. Customers have no choice but to adopt digitalization, and we are in great positioning to capture this opportunity. Our sales force is excited about going after new areas of spend, via all our cloud options, analytics, install base and upgrade programs, and in the second half of the year, Blue Carbon.

We were not born fast, but, as I like to say, we are reborn cloud. In constant currency, we delivered \$623 million of cloud revenues, and 61 points of adjusted gross margin. We are managing a global cloud infrastructure, supporting 65,000 customers. We have done this while improving our margins and overall corporate performance.

I'm extremely proud of what this organization has delivered, and it is simply amazing. Our business strategy is working, our cloud strategy is working, our cash flows are working. We continue to see the world as hybrid. Our license and PS businesses are performing on a consistent basis in terms of their absolute dollar contribution.



As we look into FY16, on a percent of total revenues, we are raising our business targets on recurring revenues, cloud revenues, and gradually lowering license and PS, again, on a total percent of contribution. On adjusted operating margin, we are raising our targets for FY16 and have set longer-term aspirational goals of 34% to 38%.

We have the pipeline and available cash to continue with acquisitions this year, to continue with our correlating dividend program, and up to a \$200 million share buyback, which we announced today, and as John referenced, we have a strong liquidity position.

Let me end with something very tangible that is visible to employees, but may not be as visible outside the Company looking inside. We left our Company and sales kickoffs this year, in early July, with more energy than I've ever seen. Our employees are excited and highly motivated to capture the digital opportunity.

With that, I'd like to turn the call back over the operator, and look forward to your questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Steven Li, Raymond James.

Steven Li - Raymond James & Associates, Inc. - Analyst

John, the gross amount for the tax issue of \$550 million, how do you reconcile that with the \$280 million and the \$18 million?

John Doolittle - Open Text Corporation - CFO

There are three components to the gross notional amount. One is the amount of tax that's in the press release, and the second and third components are interest and penalties. So the difference between the amount you see in the press release and the \$550 million that I've talked about are interest and penalties.

Steven Li - Raymond James & Associates, Inc. - Analyst

Okay, and if I understood you, so even if IRS position stands, your 20% tax rate going forward does not change. So this is a one time issue?

John Doolittle - Open Text Corporation - CFO

Yes, it is, Steven. The issue was the outbound transfer of the IP back in 2010, and so the IRS is objecting to that transfer, and seeking to tax us. So it's a looking back to 2010 issue, and on a go-forward basis the current structure stands, and that's why we're calling the rate at 20%.



Steven Li - Raymond James & Associates, Inc. - Analyst

Is there a possibility for an assessment for 2013 to 2015? So was there any other asset transfers of the global 360?

John Doolittle - Open Text Corporation - CFO

No, there weren't, so we don't expect any assessments of this nature. Obviously, we're constantly under audit by the IRS and other authorities, so we're always going to have assessments for this and that, but on this particular matter, we don't expect any additional assessments.

Steven Li - Raymond James & Associates, Inc. - Analyst

All right, just one last one. So this was -- this earnings report was significantly better than your pre-announcement. Did the market improve that much in the last few weeks? And has the climate been maintained so far in Q1? Thank you.

Mark Barrenechea - Open Text Corporation - President & CEO

Steve, thanks for the question, Mark here. When we did our mid-June update, we talked about a variety of things. One of which is we wanted to give an update on FX, and John, if I got the numbers right for FY15, half the FX impact was just in Q4 alone. So part of that update was on FX. Second part of that update was on our cloud strategy and the resulting organization and the restructuring behind that, which is done and working very well. And Q4 is an example of what we -- what the business is capable of with extreme focus and execution. We executed extremely well around the world in all our major geographies and product lines, and is the highlight of what we're capable of when we fire on all cylinders. I also think it's an example of why we give annual target ranges versus quarterly, because we really want to look at our business on an annual basis. But in terms of specific results for the quarter, it's an example of what we're capable of when we fire on cylinders.

Steven Li - Raymond James & Associates, Inc. - Analyst

That's great, thanks, Mark.

Operator

Philip Ling, Barclays Capital.

Philip Ling - Barclays Capital - Analyst

Hi, thanks, good afternoon. I was wondering if you could give us an update to the sales cycle for your customers who are transitioning to the cloud or hybrid solution? I think you mentioned last quarter, typically it does lengthen by a couple quarters or so. I was wondering, based on your experience, whether that has -- is that still your view, or has the refocused execution made the sales cycle not as long as before?



Mark Barrenechea - *Open Text Corporation - President & CEO*

Thanks for the question. First of all, I'll just highlight that our strategy is a hybrid strategy, right? We don't believe that everything is cloud, or off-premise, or everything is on-premise. Customers are taking, really, a paced approach, to where they want to deploy the technology, on or off premise. And so we've taken the strategy that the world is hybrid, is going to remain hybrid for some time. You know, as we've talked about in this cloud transition, we've gone from zero revenues to one-third of our business over three years, while holding license -- where license is performing really quite at a consistent basis over the last three years. And our strategy is to target and spend, and we will go out and sample our transactions from January on the enterprise. The near majority of them are new spend, it's not channelization, it's not substitution, it's new spend that we're going after. So I think with all that, and another year of experience, we're in this for our third full year of cloud, and we still have more things to learn as a cloud company, right? Twenty years of experience, we can get a license quote out in five minutes, getting a cloud quote out for multi-million dollar opportunities isn't five minutes, it's a little longer. But I think, ultimately, the sales cycles are starting to look a lot like license.

Philip Ling - *Barclays Capital - Analyst*

Okay, that's very helpful. Also, on the margins side, obviously very encouraged to see the increased target margin range. Was wondering if you could elaborate a little bit on the key drivers supporting this? I know you've got three years of track records to back this, but was wondering if there was any drivers that you could point to over the next 12 to 18 months or so, that you expect to drive this type of improvement in your margin despite the transitions to a bigger mix of cloud revenues in your business? Thanks.

John Doolittle - *Open Text Corporation - CFO*

Hey Phil, this is John. So let me take the FY16 part of that, and Mark can elaborate on the longer term. So, the first issue I point to is the restructuring, and Mark talked about that. We announced that in May, May 22. We're virtually done with that restructuring on the people side, so we expect to see, call it about 75% of the expected annual savings in FY16. The facilities piece was going to take us a little longer as we laid out in the last call. But of course, the world doesn't stand still, and you can't look at that reduction in isolation, so that's a big part of the reason why we're expecting to see overall adjusting operating margin increase. We continue to see significant headwinds on FX, as we talked about. And we're investing, we're investing in cloud and other strategic areas. So you put all that in the blender for next year, we're comfortable with the growth in margin that we're seeing. And then, Mark, maybe a comment on the longer term?

Mark Barrenechea - *Open Text Corporation - President & CEO*

Sure, if we look at kind of our aspirational 2020 goals, if you will, I think the opportunity falls into three main categories. The first is automation. We, ourselves, are going through and testing all our processes, all our systems, to ensure we lead the way ourselves on digitalization, and that's going to represent an opportunity to get more efficient as a business. So automation and digitalization. Second is labor, and how we globally source our labor, provide services, and where we place that labor, that's why our southeast Asian operations are real important to us and now 25% of our business. And that will help us stay out cost effectively. The third is, quite candidly, just taking out third-party products. You go across license and PS, cloud as well, and just a maniacal focus of, we've acquired a lot of things, they come with third party technologies. We're moving those third party technologies in a paced and deliberate manner. Gives us an opportunity to continue to look towards continually to improve the efficiency of the business. So automation, digitalization, placing labor in the right places of the world, and taking out third-party costs gives us the confidence in those aspirational goals.



Philip Ling - Barclays Capital - Analyst

Got it, that's very helpful, thanks very much.

Operator

Richard Tse, Cormark Securities.

Richard Tse - Cormark Securities - Analyst

Thank you. Mark, I was wondering if you could help me reconcile the margin profile moving up. You go through a 30 point difference when it comes to license and cloud margins, yet you're ticking your margin profile up. Is it, I'm guessing, going to be on the operating cost side and, if so, maybe sort of walk me through the mouth of how that works?

Mark Barrenechea - Open Text Corporation - President & CEO

Well, hey, Richard. That was a big part of the question that I just answered, and if you look at the restructuring. So we committed to \$50 million in annual savings, and that was the people part of the savings, and that's, as I said, virtually all behind us. So that is probably the single biggest contributor to our confidence in being able to increase bottom line margin.

Richard Tse - Cormark Securities - Analyst

Okay, and I guess on Steven's question, there's obviously a big difference in the guidance you gave back in May and the results today, which were vastly better. Now at that point in time you talked about the environment being fairly soft, now has the environment improved since then, or is this purely because of the execution that you talked to?

Mark Barrenechea - Open Text Corporation - President & CEO

I'll continue to point to focus and execution. The team was very excited with our changes in mid-May. We talked about removing layers and getting close to the customers, and they delivered with extreme focus and execution. I also believe that our -- the competitive enforcement is improving for us, if you allow me to spend a moment on that. If you look at, and I'll point the two out -- I'll talk about two competitors. The first is EMC Documentum, and we're very focused on competitive replacements here. We have Core, and they really don't have an online strategy, which is helping us. We now have analytics, and they do not, and that's helpful for us. We have a business network, integrating complete information flows in various industries and in various corporate functions, like treasury management, cash management, electronic invoicing. It's helpful, I think, to have that integration, and Blue Carbon, and information flows, I don't really see how they're going to catch up. So I'm -- we're very focused on Documentum.

Next is IBM, and we had a good quarter against IBM, we're very laser focused on them. On FileNet, we beat them at Daimler, T-Mobile, Prudential, US Department of State, and we have Core and Blue Carbon. They've



basically abdicated their online ECM solution to another party. Sterling Commerce, we beat them at large accounts including Gourdough, Donaldson -- or Donnelley, Mark & Spencer, ADP, as well as Hasbro. On Cognos and Maximo, we replaced them at Northstar and Barclays. And this is my favorite, actually, that IBM LifeSciences is turning off FileNet and going with the OpenText content suite, and will be live next month. So I guess the headline is, IBM Selects OpenText for Content Management. So what's new, right? The organization had extreme focus and execution in Q4, and it worked. it's an example of what we can do, and we continue quarter over quarter, release over release, to strengthen our competitive position and I'd like to highlight that strength over Documentum and IBM today.

Richard Tse - Cormark Securities - Analyst

Okay, that's really helpful. Just one last question, related to the tax issue. When do you guys figure that you're going to be at a point you'll resolve this, or there's a decision one way or another? And I guess, related to that, I think in Canada, when you end up with these situations you have to sort of put up half the cash, and I guess you're suggesting that's not the case, you're not creating a liability, but I just wanted to see how the mechanics work behind this.

John Doolittle - Open Text Corporation - CFO

Yes, Richard. It's different in the US, you don't have to put up the cash. So this will play out in one of two ways, either it will get settled or it will go to court. And the time frame on that is a little unpredictable at the moment. At this stage, we've received what is called a draft notice, so it's a draft assessment, and we're expecting to get another draft assessment. So it's really tough to say, at the moment, how long it's going to take to play out. I mean, it's not going to be settled over the next month or two, that's for sure, it's going to take some time. So we commit to keep you updated as things evolve.

Richard Tse - Cormark Securities - Analyst

Okay, thank you.

Operator

Kris Thompson, National Bank.

Kris Thompson - National Bank Financial - Analyst

Great, thanks. Mark, just to go into the pre-announcement one last time. I'm assuming that was mostly on some license catch-up, and what I want to understand is should we be a little bit cautious looking into Q1. I mean, is there going to be some normal Q1 seasonality where maybe you've pulled some deals you figured wouldn't close so we should be a bit cautious on our Q1 license number?

Mark Barrenechea - Open Text Corporation - President & CEO

Kris, thanks for the question. I can't speak to Q1, right? We don't give guidance, but I'll go back to my script, where over the last three years our license and PS business has really been performing on an actual basis



consistently. Think of that consistency continuing as we on-board additional cloud revenue, either the acquisitions or organically. But the emphasis is on the consistency of the performance of the licenses.

Kris Thompson - National Bank Financial - Analyst

Okay, and were there any eight digit license deals in the quarter?

John Doolittle - Open Text Corporation - CFO

Eight -- how many is eight digits? (laughter)

Mark Barrenechea - Open Text Corporation - President & CEO

No, there weren't. No eight digits.

Kris Thompson - National Bank Financial - Analyst

And just on the Corp Dev team, can you --

Mark Barrenechea - Open Text Corporation - President & CEO

Couple seven digits. (laughter)

Kris Thompson - National Bank Financial - Analyst

Can you just give us an idea of the Corp Dev team, how many bodies you have there now? You said you were planning on doubling it. And maybe just confirm that you're still focusing what's in your five pillars?

Mark Barrenechea - Open Text Corporation - President & CEO

Yes, fair enough, so we remain very focused on EIM and all that that means to us, and are not looking to expand into ERP or other types of technologies. We're looking to -- we expect to close transactions this year, we got the pipeline and cash to do that, translate into multiple and meaningful acquisitions in FY16, and we're basically going to double the team from half a dozen to a dozen.

Kris Thompson - National Bank Financial - Analyst

Okay, thanks a lot, guys.

Operator



Paul Steep, Scotiabank

Paul Steep - Scotiabank - Analyst

Great, thanks. Mark, maybe you can just, on the latest SAP partnership, maybe we can go back and talk a little bit about the scope and the timing, and maybe even what the potential of that new deal with Ariba means and maybe SAP in general, how that relationship has now evolved?

Mark Barrenechea - Open Text Corporation - President & CEO

Yes, thanks for the question, Paul. Look, relationships -- my philosophy is relationships endure though products may come and go. We continue to have a very strategic on-premise relationship with SAP, and there's still more life in that, for sure. When we look to future growth areas, SAP certainly is driving all things cloud. So we've actually worked through a few things with them. We have pricing models now in place where they can bring our technology into their cloud economic model.

We support HANA, which is their main deployment platform for all things cloud. And now, more structurally on transactions, and this integration will be done over the next 90 days or so, so it's not a significant amount of work. Their large business network and our large business network will have a completely integrated commercial bridge so traffic can flow between the two networks, and that will allow existing and new Ariba customers to take advantage of our trading (inaudible). So they'll win on Ariba, we'll win on our training (inaudible). For some of their cross-gate customers, we would love to bring them in as managed service customers. That will require very deep integration into our VAN. So there are multiple layers of goodness here. One is we have new economics in place for our overall technology; we're supporting HANA, which is their main deployment platform, and three is the commercial bridge will allow further strength into their Ariba platform. It will provide network revenues to us, and there'll be a broader set of customers that will require deep integration into our band, we'll be able to provide that managed service.

Paul Steep - Scotiabank - Analyst

Great. Two quick clean-up questions, then. One, post the 2016 sales kick-off, is there anything we should think about, or note, in the sales compensation that changed heading into 2016? Are they going to further incent the sales teams to go after cloud wins, or, again, is it sort of an agnostic view that you've traditionally had?

Mark Barrenechea - Open Text Corporation - President & CEO

Yes, I think the plans are pretty much the same year-over-year. I think what's different is seeing reps stand on stage who won large cloud deals, and getting commensurate commission checks, and being able to feed off, that's how you do it, and that's what I can make. In having kind of those a-ha moments by example, I think were very powerful for the broader organization. The plans are basically the same, year-over-year, but the examples of win and the commensurate motivation, professionally and monetary behind that, was very evident at our kick-off.

Paul Steep - Scotiabank - Analyst



And then the last one, just to put this IRS thing, hopefully, to bed. It was very clear that you've not reserved for this. Can you just comment on, with the Board and the Audit Committee, did they go and get a second opinion that would've obviously led you to not take the reserve, and obviously there was clearly meetings about this?

John Doolittle - Open Text Corporation - CFO

Paul, as I said in my commentary, obviously we take this very seriously and we examined, we have examined, over the course of time, the original opinion. We've got the right experts to help us look at the notice of proposed assessment, and so there are a lot of great minds that went into coming up with the conclusion that we did. And so we're comfortable with that conclusion, from an accounting point of view, we here around this table, and the Board as well. (multiple speakers) They're out today.

Paul Steep - Scotiabank - Analyst

Thank you.

Mark Barrenechea - Open Text Corporation - President & CEO

All right, so that's going to wrap up the call today. I'd like to thank you for your time. In summary, we see good demand drivers coming in for 2016 for digitalization, security, analytics, information management. Delivered strong FY15 results. Our cloud strategy is working, three full years of experience under our belt, and we are raising our business targets for FY16 as we highlight it, and we've announced buyback of up to \$200 million today. I'd like to thank you for your time.

Operator

This concludes today's conference call. You may now disconnect your lines. Thank you for participating and have a pleasant day.

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